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January 26, 2000

**VIA OVERNIGHT DELIVERY**

Mr. K. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

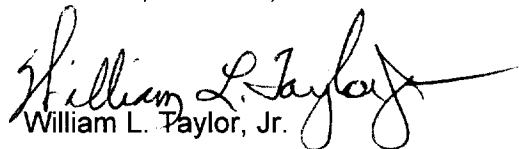
In re: Chattanooga Gas - Docket No. 99-00908

Dear Mr. Waddell:

Pursuant to the request of Chairman Malone, we are filing herewith Supplemental Information in 13 copies to deal with questions he raised at the meeting on January 25, 2000. If there are further questions, we request that you contact us by telefax or telephone and we will endeavor to respond immediately.

Very truly yours,

SPEARS, MOORE, REBMAN & WILLIAMS

  
William L. Taylor, Jr.

WLT:jcb

Enclosures

L:\LIBRARY\USERS\JULIE\WLT\LETTERS\WADDELL.DAV

cc.: Mr. Hal Novak  
Atlanta Gas Light Company  
P. O. Box 4569  
Atlanta, Georgia 30302

Mr. Harrison F. Thompson  
Mr. Earl Burton  
Chattanooga Gas Company  
6125 Preservation Drive  
Chattanooga, Tennessee 37416

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January 26, 2000  
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Mr. Vincent Williams  
Consumer Advocate Division  
Office of the Attorney General  
450 James Robertson Parkway  
Nashville, Tennessee 37243-0485

Mr. Jerry Violette  
Plant Manager, Chattanooga Plant  
E. I. du Pont de Nemours Company  
4501 Access Road  
Chattanooga, Tennessee 37415

Mr. G. M. Pinto  
Gas Marketing  
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600 North Dairy Ashford  
P. O. Box 2197, CH1081  
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**BEFORE THE TENNESSEE REGULATORY AUTHORITY**  
**NASHVILLE, TENNESSEE**

IN RE: CHATTANOOGA GAS COMPANY )  
 )  
APPLICATION FOR APPROVAL OF )  
NEGOTIATED CONTRACT WITH E. I. )  
du PONT deNEMOURS COMPANY )

DOCKET NO. 99-00908

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TELEPHONE ROOM

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**SUPPLEMENTAL INFORMATION**

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At the Tennessee Regulatory Authority Conference on January 25, 2000, the TRA Directors deliberated on a special contract (the "contract") between Chattanooga Gas Company ("Chattanooga" or "Company") and E. I. du Pont de Nemours Company ("du Pont") in Docket 99-00908. At the conference, the Directors had specific questions for the Company regarding the recovery of margin losses on the contract. The TRA then decided to approve the contract, but to defer the issue on the recovery of margin losses until the next conference and gave the Company until noon on January 27, 2000 to respond to it's questions. Accordingly, this additional filing is provided.

At issue appears to be Section VII of the Company's Petition for the contract. This provision is repeated in it's entirety below:

**VII.**

In Docket No. 97-00982, the Authority approved as part of Chattanooga's Gas Tariff, TRA No. 1, an Interruptible Margin Credit Rider whereby 90% of gross profit margin losses resulting from negotiated rates to meet competitive rates of alternative fuels would be recovered. Chattanooga proposes to recover such losses from the Negotiated Contract with du Pont in accordance with the Interruptible Margin Credit Rider.

**FILE**

The Director's specific questions appear to be whether or not the terms of the Interruptible Margin Credit Rider ("IMCR") applied only to interruptible commodity and not to transportation transactions.

Typically, the IMCR is applied to the monthly sales of gas or transportation services from the Company's customers with alternate fuel capabilities under Rate Schedule SS-1. The IMCR, along with the Company's SS-1 tariff, allow the Company to negotiate the best monthly rate with these customers and then to recover 90% of the lost margin. The IMCR allows the Company to address competition with alternate fuels on a monthly basis. The Company reexamines the competitive price for these customers each month and a discount may or may not have been offered depending on the price movement of the alternate fuels involved.

The Company cannot determine the exact time that the IMCR was first put into effect, but believes it to be a minimum of 10 years. Prior to adoption of the IMCR, the Company with approval from the TRA predecessor the Tennessee Public Service Commission ("TPSC"), used various regulatory mechanisms to meet competition for customers with alternate fuel capability. However, the burden and delay in getting regulatory approval for these mechanisms on a timely basis often proved to be their undoing. To address this, the Company requested and the TPSC approved the IMCR. The IMCR allowed the Company to negotiate alternate fuel special contracts without first getting regulatory approval and also allowed the Company to recover only 90% of the lost margin from its other customers.

**The IMCR, along with the SS-1 tariff, allowed the Company to recover 90% of its lost margin from both sales and transportation customers as shown in the availability paragraph of the SS-1 tariff.** However, the IMCR was not designed to work with long-term contracts such as

du Pont. Therefore, the Company has asked for separate and specific authority to recover its margin losses from this contract in the same manner as it is allowed to do on monthly agreements under the IMCR.

The Company only chose to refer to the margin loss recovery of the IMCR in Section VII of the contract as a point of reference. Again, while the terms for margin loss recovery in Section VII would be the same as the IMCR, the IMCR only allows for month-to-month negotiations and not the long-term contract as we have here with du Pont.

The TRA has consistently approved some measure of margin loss recovery on the special contracts that it finds to be in the customer's best interest. Specifically, the TRA has typically allowed 90% recovery of the margins that were lost. This policy recognizes that the Company is at risk for the sales that it makes and at the same time also recognizes that complete disallowance of margin loss recovery may place the Company in a position of requesting a general rate increase.

A full study of the TRA and TPSC's allowance for margin loss recovery of special contracts is not possible at this time given the deadline for this response. However, it is the Company's understanding that the following contracts have been recently approved by the TRA with margin loss recovery provisions:

**Nashville Gas Company**

State Industries  
Bridgestone

**United Cities Gas Company**

Alumax

Given these precedents, the Company again prays for the TRA to allow it to recover 90% of its margin losses from this contract with du Pont through a mechanism similar to the IMCR.

Respectfully submitted, this the 26 day of January, 2000.

CHATTANOOGA GAS COMPANY

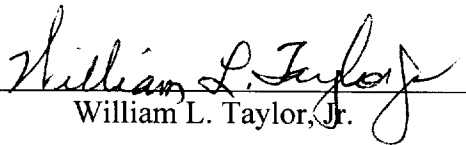
By: William L. Taylor, Jr.

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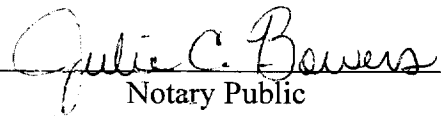
**VERIFICATION**

STATE OF TENNESSEE  
COUNTY OF HAMILTON

William L. Taylor, Jr., being duly sworn, deposes and says that he is attorney for Chattanooga Gas Company; and that, as such, he has read the foregoing Supplemental Information and knows the contents thereof; that the same are true of his own knowledge, except as to those matters stated on information and belief and to those he believes them to be true.

  
\_\_\_\_\_  
William L. Taylor, Jr.

Sworn to and subscribed before me  
this 26<sup>th</sup> day of January, 2000.

  
\_\_\_\_\_  
Notary Public

My commission expires: 9-4-02

## CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing Supplemental Information on:

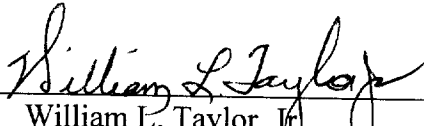
Mr. Jerry Violette  
Plant Manager, Chattanooga Plant  
E. I. du Pont deNemours Company  
4501 Access Road  
Chattanooga, Tennessee 37415

Mr. G. M. Pinto  
Gas Marketing  
E. I. du Pont deNemours Company  
600 North Dairy Ashford  
P. O. Box 2197, CH1081  
Houston, Texas 77252-2197

Vincent Williams  
Consumer Advocate Division  
Office of the Attorney General  
Cordell Hull Building  
426 5<sup>th</sup> Avenue North  
Nashville, Tennessee 37243

by placing a copy of same in an envelope, postage prepaid and placed in the U.S. Mail.

This the 26 day of January, 2000.

  
\_\_\_\_\_  
William L. Taylor, Jr.